

Utilities Privatization Program Execution



***Major Jeff Vinger
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Privatization
AF/ILEIO
15 January 1998***



Overview

- Program Scope
- Program execution
- Summary





Scope

- **Active AF - 81 major installations, 9 minor**
- **ANG - 3 major installations, 67 minor**
- **AFR - 4 major installations, 10 minor**
- **Over 350 utility systems being screened**
 - **Estimate 175 systems to be analyzed**
 - **Analyses: \$200K per system**
 - **EBS: approx \$500K per base**



Summary of Air Force Utilities

<u>SYSTEM</u>	<u>CAPACITY</u>	<u>VALUE</u>
Power Generation	1 Million KW	\$950M
Power Distribution	21,000 Miles	\$5,100M
Natural Gas Lines	1,800 Miles	\$800M
Wastewater Plants	6,000 MGD	\$1,600M
Sewage Collection	5,800 Miles	\$2,200M
Water Supply/Treatment	4,200 MG	\$1,200M
Water Distribution	9,500 Miles	<u>\$4,200M</u>

OTHER UTILITIES NOT INCLUDED IN DRID

Central Heat Plants	14 Billion BTU	\$770M
Heat Distribution	1,200 Miles	\$2,100M
Chilled Water Plants	120,000 Tons	\$130M
Chilled Water Lines	38 Miles	<u>\$75M</u>
		\$19.1B



Utilities Privatization Process

PHASE I - PRELIMINARY FEASIBILITY ASSESSMENT (1-2 Months)

Project ID
"Quick Look" model



Facility board approval

Project requirement
Draft business plan

PHASE II - COMPREHENSIVE EVALUATION (6-8 Months)

Analysis



AF corporate
approval

PHASE III - PRIVATIZATION IMPLEMENTATION (6-8 Months)

Issue RFP and
evaluate proposals

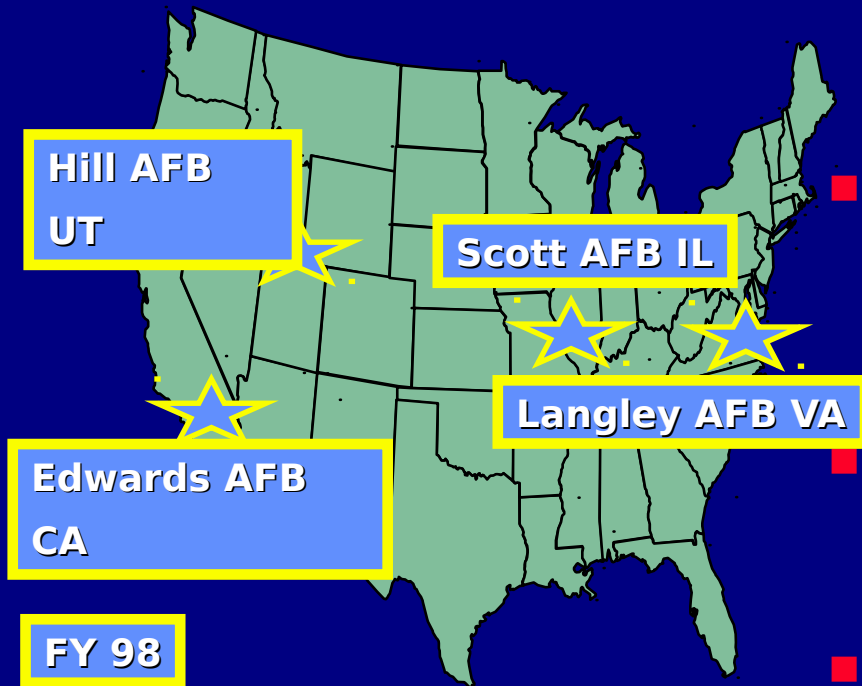


Congressional notification

Selection
Transfer negotiation
Deed/operation
transfer



Process Has Started Privatization Pilot Studies



- Hill AFB (ACC): Feasibility Study on privatization of the Industrial Wastewater Treatment Plant
- Langley AFB (ACC): Feasibility Study on privatization of the Electrical & Gas Distribution System for Bethel Manor Housing
- Scott AFB (AMC): Comprehensive Analysis on privatization of the wastewater treatment plant
- Edwards AFB (AFMC): Comprehensive Analysis on privatization of the Electrical Distribution System



Defense Reform Initiative

By January 1, 2000, the Department will privatize all utility systems (electric, water, wastewater, and natural gas) except those needed for unique security reasons or when privatization is uneconomical.

***William S. Cohen
Secretary of Defense
SECDEF Reform Decision
10 Nov 97***



NEXT STEP ***Program Constraints***

- Estimate 175 studies
- \$35M required to fund all at \$200K/Study
- To meet 1 Jan 00 goal:
 - FY97 4 pilot Studies \$450K *Funded*
 - FY98 87 Studies, 2 pilots \$17.6M *Unfunded*
 - FY99 88 Studies \$17.6M *Unfunded*
- Recommendations:
 - Advocate for DoD funding
 - Advocate for revolving study account for any lumpsums obtained through transfers
 - AF/XPMS O&P funding, ILE Wedge and MAJCOM buy-in for studies and EA/EBS tail



Execution Milestones

Milestone

ECD

- Began four prototype privatization analyses (PA) • 1 Mar 97
- Privatized Youngstown ARB electrical system • 27 Jul 97
- Validate/prioritize AF utility systems (est. 350) • 1 Mar 98
- Obtain \$35M for PA of 175 systems, \$48M for environmental analyses, and \$1.4M for management support of 175 systems • 1 Mar 98
- Start analysis of 175 utility systems • 1 May 98
- Complete privatization of four prototypes • 1 May 99
- Complete privatization of 175 utility systems • 1 May 99



NEXT STEP

Options Given DoD Guidance

- **Army concept - privatize no matter the impact**
- **Navy concept - basewide utilities studies**
 - **Expensive and not feasible to privatize some utilities**
- **Proposed concept - continue present course**
 - **Screen all utilities and prioritize according to potential focusing on big four (water, wastewater, electric, and gas) at bases without UTC impacts - “limited exception”**
 - **Establish and accelerate program as funds are made available - DoD, AF O&P Funds or MAJCOM**
 - **Take advantage of bundling and regionalization**
 - **Depending on funding stream, outsource all other plants beyond two year goal**



Execution Option 1 (2 years)

<u>FY</u>	<u>Analysis</u>	<u>EBS</u>	<u>Support&TDY</u>	<u>Total</u>
98	\$35M	\$48M	\$700K	\$83.7M
99			\$700K	<u>\$0.7M</u>
				\$84.4M

- Unexecutable
 - Massive commitment of funding required, unsourced
 - Maxs current contract capability
 - Floods market, impacts industry response
 - Requires characterization analysis process (24 m
- In line with OSD's Guidance***



Execution Option 2 (5 years)

<u>FY</u>	<u>Analysis</u>	<u>EBS</u>	<u>Support&TDY</u>	<u>Total</u>
98	\$5M	\$10M	\$700K	\$15.7M
99	\$15M	\$20M	\$700K	\$35.7M
00	\$15M	\$18M	\$700K	\$33.7M
01			\$700K	\$0.7M
02			\$700K	\$0.7M
				\$86.5M

- Executable
- Massive commitment of funding required, unsourced
- Current contract capability exits, obtainable
- Limits impact on industry

Not in line with OSD's Guidance



Execution Option 3 (9 years)

<u>FY</u>	<u>Analysis</u>	<u>EBS</u>	<u>Support&TDY</u>	<u>Total</u>
98	\$5M	\$10M	\$700K	\$15.7M
99	\$5M	\$10M	\$700K	\$15.7M
00	\$5M	\$10M	\$700K	\$15.7M
01	\$5M	\$10M	\$700K	\$15.7M
02	\$5M	\$8M	\$700K	\$13.7M
03	\$5M		\$700K	\$5.7M
04	\$5M		\$700K	\$5.7M
05			\$700K	\$0.7M
06			\$700K	\$0.7M
				<u>\$89.3M</u>

- Executable
- Massive commitment of funding required, programmable
- Current contract capability exists, obtainable
- Limited impact on industry



Issues

ISSUES:

- **Massive undertaking in time and resources--not executable in timeframe--funds not sourced**
 - **Total funding requirement; \$35M for analyses, \$48M for environmental surveys, \$1.4M support**
- **Must maintain CE readiness core and warskill training capability**
- **Need clarification of DRI goal/timeline and criteria for exceptions**



Summary

- **Policy, guidance and tools in place**
- **Legislative authority in place, streamlines**
- **DoD direction unexecutable with existing resources and constraints--need time and funding**
 - **DRID directed services to brief programs 13 Mar 98**

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BACKUPS



Potential Funding Streams

Source

- OSD set-aside
- AF O&P Panel
- AF/IL study funds
- ILE
- AFCESA
- MAJCOMs

Actions-to- date

Queried ODUSD/A&T

Requested Sep 97

Requested Oct 97

Funded continuation of
pilots Langley, Hill
analyses

Line item in RRB

Funding environmental
tail of pilots



Army

- **A broader view: policy is to obtain utility services from private/public sector providers**
- **Out of the utility business (100% of water, wastewater, gas and electric sold by 2000 unless uneconomical or in cases of unique security reasons)**
- **Army utilities privatization office overseeing a massive economic study effort since 1991**
- **Released policies and procedures 4 Nov 97, revised 25 Nov 97 in light of DRI**
- **MACOMs tasked to submit execution plans**



Navy

- **Reduce infrastructure and privatize unless there are compelling economic or operational reasons not to**
- **Testing negotiation and economic studies**
- **Developing privatization guidebook/policy, draft by Feb 98**
- **Process mirrors AF**
- **Establishing Navy utilities privatization office**



USMC

- **Policy emphasis on maximizing available capital for combat forces**
- **Testing economic studies at several bases**
- **Watching what other services are going to do**



Scott AFB Wastewater Treatment Plant Privatization Study

- **Contractor: CH2M-Hill / Geo-Marine**
- **On-site industry forum conducted 30 Jul 97**
- **Non-binding proposals indicated tremendous municipal and industry interest**
- **Draft economic analysis indicated full privatization as best alternative**
- **Draft comprehensive report under review**
- **Final comprehensive report due 30 Jan 98**
- **Estimate release of draft RPF for industry review 30 Feb 98**



Edwards AFB Electrical Distribution System Privatization Study

- **Contractor: GEO-MARINE / CH2M HILL**
- **Conducted on-site industry forum 23 Oct 97**
- **Non-binding proposals indicated tremendous interest by electrical industry providers**
- **Draft economic analysis indicated full privatization is best alternative if unable to ensure future capital reinvestment in system**
- **Draft comprehensive analysis report due 2 Feb 98**



Hill AFB Industrial Wastewater Treatment Plant Privatization Study

- **Contractor: CH2M-Hill / Geo-Marine**
- **On-site industry forum conducted 24 Jul 97**
- **Non-Binding Proposals indicated industry interest, but no municipal interest**
- **Final feasibility study report indicated full privatization was a viable alternative**
- **ILE funded continuation of analysis 15 Dec 97**
- **Draft comprehensive analysis report due 1 May 98**
- **Estimate release of draft RFP for industry**



Langley AFB Electrical/Natural Gas Distribution System

- **Contractor: C.H. Guernsey**
- **Non-binding proposals indicated interest from Virginia Power, awaiting non-binding proposal from Virginia Gas**
- **Draft feasibility report indicated full privatization of electrical distribution system was best alternative and demonstrated a reasoning for transfer of the system on a sole-source basis**
- **Draft feasibility report on gas system to be forwarded Jan 98**
- **Final feasibility report due Feb 98**
- **ILE funded continuation of analysis 15 Dec 97**
- **Estimate release of draft RFP/sole-source support May 98**



Summary

- **Utilities Privatization Program**
 - **Legislative authority in-place**
 - **Policy, guidance and tools in-place**
 - **Survey of AF systems underway**
 - **SECDEF directive to privatize by 1 Jan 00**
- **Keep sight of goals as we adapt to SECDEF DRI**
 - **Got to make sense, best value to the government**
 - **Cannot impact readiness commitments/training**